

3rd February 2021

CMP – ₹513/-

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Q3FY21 Performance

Sudarshan Chemicals reported ~19.6% Y-o-Y and ~18% Q-o-Q increase in topline to ₹5064mn on account of good domestic growth and steady demand in export markets. Sales volumes in non-specialty grew by 24% Y-o-Y backed by strong pickup in demand while volumes in specialty business grew 21% Y-o-Y.

EBITDA for the quarter stood at ₹796mn up ~26.5% Y-o-Y and ~18% Q-o-Q while EBITDA margins grew only by ~87bps to 15.7% in Q3FY21.

PAT grew by ~38% Y-o-Y and ~29% Q-o-Q to ₹391.6mn from ₹283mn in Q3FY20 on the back of higher operating profitability and higher other income. Other income for the quarter grew by 83.5% Y-o-Y and 40.7% Q-o-Q to ₹25.5mn. PAT margins stood at 7.7% in the quarter compared to 6.7% in Q3FY20 and 7.1% in Q2FY21.

Important Statistics

Mcap (₹ mn)	₹35,478
52 Week H/L (₹)	538.0/286.3
NSE Code	SUDARSCHEM
BSE Code	506655

Shareholding pattern (%)	Dec'20
Promoter Holding	40.0
FII	9.3
DII	6.8
Public	43.9

Key Concall Highlights

- Company reported ~19.6% Y-o-Y and ~18% Q-o-Q increase in topline to ₹5064mn on account of good domestic growth and steady demand in export markets.
- EBITDA for Q3FY21 stood at ₹796mn up ~26.5% Y-o-Y and ~18% Q-o-Q while EBITDA margins grew by ~87bps to 15.7% in Q3FY21. PAT increased by 38% Y-o-Y and 29% Q-o-Q to ₹392mn from ₹283mn in Q3FY20 on the back of higher operating profitability and higher other income.
- Pigments business is growing stronger (22% Y-o-Y) due to growth in local and international market and its user industries. Non-specialty business reported good growth with sales volume growing 24% YoY backed by good demand pick-up in Q3FY21. Demand in the specialty business was buoyant, backed by technical abilities built over the years with sales volumes growing 21% YoY in Q3FY21.
- For Q3FY21, the domestic division contributed ~56% of the total revenues, while the exports contributed ~44%.
- Employee costs for the quarter were slightly higher due to annual increments, while other expenses are higher as the production levels have increased.
- On the Capex front, of the total planned capex of ₹5850mn, nearly ₹2250mn was completed and ₹1500mn is anticipated to be completed by FY21 end; while a capex of ₹2100mn is planned for FY22. Management expects asset turnover of ~3x on full utilisation.
- Company has strong pipeline of 20-25 products to be launched in 2-3 years of which it intends to launch 4-5 high performance pigments molecules in FY22.
- A yellow high performance pigment (HPP) is in the trial production stage and the company expects to start commercial production from Q1FY22 after having secured customer approval.
- Revenue contribution from new products is not significant currently however expects it to reach 15-20% in 2-3 years following launch of key HPPs.

Financials

	(₹ mn)		
Particulars	FY18	FY19	FY20
Revenues	13,294	15,930	17,082
EBITDA	1,873	2,040	2,463
EBITDA Margin (%)	14.1%	12.8%	14.4%
Net Profit	847	1,351	1,445
EPS (₹)	12.2	19.5	20.9
RoE (%)	19.3%	23.8%	24.1%
RoCE (%)	16.5%	16.1%	16.7%
P/E (x)	41.9	26.3	24.5
EV/EBITDA (x)	20.8	18.8	16.2

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Key Risks

Slower than expected demand recovery in its key markets and 2nd or 3rd wave of Covid-19.

Delay in capex implementation could impact financials of company

Sharp fluctuation in raw materials prices due to disruption in China would impact margins and profitability.

View

Company reported better numbers on revenue, EBITDA and PAT front on an account of good demand recovery at end user industries in domestic market. Company's EBITDA margins improved Y-o-Y basis from 14.9% to ~15.7% in Q3FY21. We remain positive on company's long term growth story given its capex plan of ₹5000-6000mn over FY22E, humongous opportunity in its user industry, increasing share of high value products and commercialization of new products (high margin). Further healthy balance sheet and strong return ratios boosts our confidence on the stock. **At the CMP of ₹513, the stock is trading at ~25x FY20 EPS which is at discount to peers (from midcap space) and thus we recommend investors to Accumulate the stock on dips.**

Consolidated Financial Highlights

(₹ mn)

Particulars	Q3FY21	Q2FY21	Q3FY20	Y-o-Y	Q-o-Q
Net Sales	5,064	4,289	4,235	19.6%	18.1%
Total Expenditure	4,267	3,612	3,606	18.3%	18.1%
EBITDA	796	677	629	26.5%	17.7%
EBITDAM	15.7%	15.8%	14.9%	86.72	-5.50
Depreciation	216.72	218.92	177.94	21.8%	-1.0%
EBIT	580	458	451	28.4%	26.6%
EBITM	11.4%	10.7%	10.7%	78.88	76.93
Other Income	25.54	18.15	13.92	83.5%	40.7%
Interest	45.94	51.47	37.76	21.7%	-10.7%
PBT	559.25	424.65	405.93	37.8%	31.7%
Tax	167.66	121.33	122.81	36.5%	38.2%
PAT	391.59	303.32	283.12	38.3%	29.1%
PATM	7.7%	7.1%	6.7%	104.83	66.12
EPS	5.66	4.38	4.09	38.3%	29.1%

Source: Company Filing, Way2wealth Research

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Disclosure of Interest Statement Sudarshan Chemicals Ltd. as on February 3rd, 2021

Name of the Security	Sudarshan Chemicals Ltd.
Name of the analyst	Yogita Desai
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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